

Message Text

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E.O. 11652: N/A

TAGS: ABLD, PFOR, UR, US

SUBJECT: SOVIET REQUEST FOR TAX EXEMPT BUILDING PURCHASE

USDOC FOR BEWT/HEISS

REF: STATE 215654

1. SUMMARY. ASSUMING THAT TAX EXEMPTION WHICH SOVIETS HAVE REQUESTED ON PROPERTY WHICH THEY PROPOSE PURCHASE TO HOUSE THEIR TRADE REPRESENTATION IS CONSISTENT WITH U.S. REGULATIONS, EMBASSY BELIEVES WE SHOULD FACILITATE THEIR REQUEST. HOWEVER, AT SAME TIME EMBASSY BELIEVES WE SHOULD USE THIS OCCASION AS LEVERAGE TO OBTAIN MORE FAVORABLE SOVIET TREATMENT OF APPLICATIONS BY ACCREDITED U.S. COMPANIES FOR OFFICE SPACE IN MOSCOW. END SUMMARY.

2. ALTHOUGH ESTABLISHMENT OF US COMMERCIAL OFFICE IN MOSCOW AND SOVIET TRADE REPRESENTATION IN WASHINGTON WAS TREATED AS RECIPROCAL ACTS IN JUNE 22, 1973 SHULTZ-PATOLICHEV PROTOCOL, EMBASSY BELIEVES THAT IN PRACTICE SOVIET TRADE REPRESENTATION IS EQUIVALENT TO MOVE THAN U.S. COMMERCIAL OFFICE. FACT THAT SOVIETS PLAN TO ACQUIRE BUILDING WITH APPROXIMATELY 1,000 SQUARE METERS OF FLOOR SPACE, WHICH IS ALMOST THREE TIMES SIZE OF COMMERCIAL OFFICE AND WILL DOUBTLESS STAFF OFFICE WITH AT LEAST THREE TIMES MORE PEOPLE THAN COMMERCIAL OFFICE'S CURRENT STAFF, LIMITED OFFICIAL USE

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WOULD SUPPORT THIS ARGUMENT. ACCORDINGLY, EMBASSY BELIEVES

WE SHOULD USE SOVIET REQUEST FOR OUR ASSISTANCE IN FACILITATING THEIR ACQUISITION OF PROPERTY FOR TRADE REPRESENTATION AS MEANS OF LEVERAGE TO OBTAIN OFFICES FOR U.S. COMPANIES IN MOSCOW.

3. AT PRESENT, 18 U.S. COMPANIES HAVE RECEIVED PERMISSION TO OPEN ACCREDITED OFFICES IN MOSCOW. OF THESE, TWO (PANAM AND AMEXCO) HAVE BEEN HERE FOR MANY YEARS AND ARE REASONABLY SATISFIED WITH CURRENT QUARTERS. THREE BANKS HAVE OFFICES IN HOTELS AND ARE SATISFIED TO REMAIN THERE. OCCIDENTAL PETROLEUM HAS OBTAINED SPACE FOR OFFICE, AS HAS PULLMAN. TRADE AND ECONOMIC COUNCIL IS NOW ESTABLISHED IN NEW QUARTERS. THIS LEAVES NINE COMPANIES WHICH ARE CURRENTLY OCCUPYING TEMPORARY FACILITIES IN HOTELS AND ARE AWAITING PERMANENT OFFICE FACILITIES. EIGHTEENTH COMPANY, HONEYWELL, HAS YET TO APPEAR ON SCENE BUT IS EXPECTED SHORTLY AND WILL JOIN NINE OTHERS IN RANKS OF HOTEL DWELLERS.

4. SOVIETS HAVE, OF COURSE, PROMISED THESE COMPANIES TO SATISFY THEIR NEEDS AS SOON AS POSSIBLE. IN CONTEXT OF JOINT COMMERCIAL COMMISSION, THEY HAVE MADE SIMILAR PROMISES, WHILE POINTING OUT VERY REAL PROBLEMS THEY FACE HERE. EMBASSY DOES NOT HAVE IMPRESSION THAT SOVIETS ARE DISCRIMINATING AGAINST U.S. COMPANIES IN IN ALLOCATING AVAILABLE SPACE. HOWEVER, SITUATION WHICH WE SHOULD SEEK IS ONE IN WHICH SOVIETS DISCRIMINATE IN FAVOR OF OUR COMPANIES AND AGAINST CLAIMANTS FROM OTHER COUNTRIES IN ALLOCATION OF OFFICES.

5. ACCORDINGLY, EMBASSY BELIEVES THAT IN RESPONDING TO SOVIET REQUEST FOR ASSISTANCE IN OBTAINING TAX EXEMPTION ON CONNECTICUT AVENUE PROPERTY, DEPARTMENT SHOULD MAKE FOLLOWING POINTS:

A) WE ARE PLEASED THAT SOVIETS HAVE BEEN ABLE LOCATE SUCH AN EXCELLENT PROPERTY FOR THEIR TRADE REPRESENTATION AND, IN PRINCIPLE, WE ARE PREPARED TO FACILITATE ACQUISITION OF THIS PROPERTY;

B) HOWEVER, WE NOTE WITH REGRET THAT OF THE 10 U.S. COMPANIES LISTED IN THE PROTOCOL SIGNED JUNE 22, 1973 BY SECRETARY SHULTZ AND MINISTER PATOLICHEV, FIVE HAVE NOT YET OBTAINED PERMANENT LIMITED OFFICIAL USE

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OFFICE SPACE IN MOSCOW. THESE COMPANIES ARE QUITE UNHAPPY WITH THEIR CURRENT SITUATIONS;

C) ACCORDINGLY, WE WOULD APPRECIATE RECEIVING ASSURANCES FROM THE SOVIET SIDE THAT THE FIVE COMPANIES IN QUESTION (GENERAL ELECTRIC, INTERNATIONAL HARVESTER, CATERPILLAR TRACTOR, HEWLETT-PACKARD AND ENGELHARD) WILL BE GIVEN PERMANENT OFFICE SPACE NO LATER THAN MARCH 31, 1975. IN ADDITION, WE

WOULD APPRECIATE AN ASSURANCE THAT THE REMAINING FIVE U.S. COMPANIES WHICH HAVE RECEIVED ACCREDITATION FROM THE SOVIET AUTHORITIES BUT HAVE NOT YET RECEIVED OFFICES (IBM, HONEYWELL, ARTHUR ANDERSEN, DOW CHEMICAL, AND SATRA) WILL BE GIVEN PERMANENT OFFICE SPACE NO LATER THAN SEPTEMBER 31, 1975.

D) ON THE BASIS OF THESE ASSURANCES FROM THE SOVIET SIDE, WE WILL BE PLEASED TO TAKE THE NECESSARY STEPS TO FACILITATE THE ACQUISITION OF THE CONNECTICUT AVENUE PROPERTY FOR THE SOVIET TRADE REPRESENTATION IN WASHINGTON.

6. COMMENT: THE TIME DEADLINES NOTED IN PARAS 4(C) AND 4(D)O ARE BASED ON THE EMBASSY'S UNDERSTANDING OF WHEN UPDK IS LIKELY TO OBTAIN BUILDINGS IN WHICH U.S. COMPANIES MIGHT BE GIVEN OFFICE SPACE. WERE WE ABLE TO OBTAIN THIS SORT OF UNDERTAKING FROM SOVIETS, IT WOULD REPRESENT MAJOR IMPROVEMENT OVER WHAT WE HAVE GOTTEN THUS FAR, I.E. ASSURANCES OF BEST EFFORTS. SOVIETS COULD OBJECT, OF COURSE, THAT TRADE REPRESENTATION IS EXACT EQUIVALENT OF U.S. COMMERCIAL OFFICE, WHICH HAS BEEN GIVEN EXCELLENT OFFICE SPACE. HOWEVER, AS WE UNDERSTAND IT SOVIET TRADE REPRESENTATION HAS OFFICE IN WASHINGTON AND DECISION ACQUIRE CONNECTICUT AVENUE PROPERTY REPRESENTS UPGRADING AND EXPANSION OF EXISTING FACILITIES. MOREOVER, THE JUNE 22, 1973 PROTOCOL DOES DRAW IMPLICIT EQUIVALENCE BETWEEN SOVIET TRADE REPRESENTATION, ON ONE HAND, AND U.S. COMMERCIAL OFFICE PLUS ACCREDITED U.S. COMPANIES ON OTHER. EMBASSY BELIEVES THAT DISTINCTION DRAWN BETWEEN TWO GROUPS OF U.S. COMPANIES, I.E. THOSE ACCREDITED BEFORE JUNE 22, 1973 AND THOSE ACCREDITED AFTER THAT DATE, IS VIABLE FOR PURPOSES OF CURRENT EXERCISE AND WOULD NOT LAY US OPEN TO CHARGES OF FAVORITISM.

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